

Message Text

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72
ORIGIN EB-07

INFO OCT-01 EA-10 ISO-00 /018 R

66604
DRAFTED BY EB/FTD:WCMIMS:HM
4/29/75 EXT. 22690
APPROVED BY EB/FTD:WCMIMS
----- 096554
R 291449Z APR 75
FM SECSTATE WASHDC
TO AMEMBASSY MANILA

UNCLAS STATE 099259

FOR A. JOSEPH WILLIAMS, JR.

FOLLOWING SENT ACTION SECSTATE WASHDC INFO GUATEMALA SAN JOSE
SAN SALVADOR TEGUCIGALPA FROM MANAGUA 24 APR 75:

QUOTE UNCLAS MANAGUA 1590

E. O. 11652: N/A
TAGS: EAGR, ETRD, NU
SUBJECT: COTTON - NICARAGUAN BANK SCHEME TO GUARANTEE DELIVERY
OF COTTON ON FUTURES CONTRACTS

1. IN 1974, MANY NICARAGUAN COTTON PRODUCERS RENEGED ON
FUTURES CONTRACT WHEN PRICES MOVED SHARPLY UPWARD AND BROKERS
FINALLY HAD TO ASK GON ASSISTANCE TO OBTAIN THE COTTON AT MUCH
HIGHER THAN CONTRACT PRICES. WHILE THIS SITUATION WAS NOT
UNIQUE TO THIS COUNTRY, IT HAS MADE BROKERS RELUCTANT TO
BUY HERE FOR FUTURE DELIVERIES.

2. THE PRESENT SPREAD BETWEEN SPOT PRICES (\$38 CWT) AND
FUTURE PRICES (\$44 TO \$46) FOR NICARAGUAN COTTON HAS LED
GROWERS WITH ONLY PARTIAL SUCCESS TO SEEK BUYERS FOR
FUTURE DELIVERIES. TO MEET THIS IMPASSE, THE MANAGER OF
THE LARGEST PRIVATE BANK IN NICARAGUA, BANCO DE AMERICA,
ERNESTO FERNANDEZ HOLMANN, IS PROPOSING A SCHEME TO BUYERS
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AND GROWERS TO GUARANTEE DELIVERY ON CONTRACTS. THE INTEREST

OF THE BANK IS ITS PROFITABLE FINANCING OF COTTON AND A CONCERN
THAT GROWERS WILL CUT BACK ON PLANTINGS IF NOT ASSURED OF
REMUNERATIVE PRICES.

3. THE SCHEME IS QUITE SIMPLE. AS GROWERS BORROW FOR
THEIR COTTON CROP (HOLMANN SAYS ABOUT 85 PERCENT OF THE COSTS
ARE FINANCED) THEY PUT UP COLLATERAL. THE BANK IN AGREEMENT
WITH THE GROWER WILL COMMIT ITSELF TO THE BUYER NOT TO RELEASE
THE COLLATERAL UNTIL DELIVERY HAS BEEN MADE ON THE CONTRACT.
HOLMANN IS PRESENTING THIS PROPOSAL TO THE GROWERS IN A
MEETING THIS WEEK. BANK WOULD MAKE TOKEN OR NO CHARGE
FOR ITS COMMITMENT.

4. HOLMANN BELIEVES OTHER BANKS FINANCING COTTON WILL BE
WILLING TO MAKE SIMILAR COMMITMENTS. HE HAS DISCUSSED
IDEA WITH CHASE MANHATTAN BANK IN NEW YORK AND SAYS IT
WAS FAVORABLY RECEIVED. SHELTON UNQUOTE KISSINGER

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, ECONOMIC ASSISTANCE, CONTRACTS, PRICE TRENDS, PROPOSALS (BID)
Control Number: n/a
Copy: SINGLE
Draft Date: 29 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE099259
Document Source: CORE
Document Unique ID: 00
Drafter: WCMIMS:HM
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750150-0816
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975047/aaaaafyn.tel
Line Count: 78
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUL 2003 by BalzMJ>; APPROVED <10 FEB 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COTTON - NICARAGUAN BANK SCHEME TO GUARANTEE DELIVERY OF COTTON ON FUTURES CONTRACTS
TAGS: EAGR, ETRD, NU, (FERNANDEZ HOLMANN, ERNESTO)
To: MANILA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006